BEFORE THE
STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

Implementation of Restructuring Legislation (Chapter 854, Statutes of 1996, AB 1890): Renewables	))))	Docket No. 96-REN-1890

COMMENTS OF FORESIGHT ENERGY CORPORATION ON
1/3/97 STAFF DRAFT POLICY REPORT ON AB 1890 RENEWABLES FUNDING

Foresight Energy Corporation ("Foresight") offers these comments on the staff draft Policy Report On AB 1890 Renewables Funding. Foresight continues to urge the Commission to use customer incentives as the best way to make the renewable resource industry more competitive. Foresight will not repeat its previously-filed testimony about the usefulness of customer incentives in achieving the goals of AB 1890, and the necessity of focusing those incentives on residential and small business customers. This filing provides comments on the Staff draft, and provide specific suggestions on how the allocation mechanism should be designed and implemented.

Allocation Level

Foresight Energy appreciates the vote of confidence in consumer markets demonstrated by the 15% funding level. This funding will allow a substantial number of consumers to purchase clean energy resources, and create the beginnings of a retail green power market. Recent events, such as the Massachusetts Pilot results (filed by Working Assets Green Power with the CEC docket on January 15) validate that customer interest in green power is very strong, and suggest that even larger reliance on consumer markets could be easily justified.

Recent announcements in the marketplace, such as Enron's intentions to spend $200 million in advertising on retail electricity markets in the next year, validate that major market players have high confidence in small customer markets. The active competition emerging in this sector makes early definition of the green power market even more critical. Customer incentive funds should be available quickly, and should be augmented to the greatest extent possible.

Comments on Proposed Customer Incentive Funding Mechanism

Taken as a whole, Foresight finds the mechanism proposed by the CEC draft to be workable. The approach does require the retailer to take substantial risks with regard to the level of customer incentive funding. However, the certainty afforded by a straightforward process outweigh the difficulties posed by allocating the funds in arrears.

The customer incentive should be implemented as described below. We do not believe this to be in conflict with the draft, but only wish to add detail and be assured that there is a common understanding of the allocation method.

Recommended Allocation Methodology:

Total funds should be divided up into equal quarterly installments between March 1998 and March 2002. The CEC would start by allocating the portion which is 'guaranteed', e.g., 15% of the $480 million. Additional funds which become available should be spread equally across the remaining quarters. The funding level should be determined quarterly, but payments should be made monthly based on monthly generation data.

Retailers, (or customers if acting directly) who are certified by the CEC and who are purchasing at least 50% of their power from certified renewable resources would submit to the CEC their total purchases for the previous month. The CEC would then allocate the available funds for that month across the total retail sales that have applied. The funds should be transferred to the retailer within 30 days of receipt of the purchase data for the previous month. All customers would receive the same level of support per kWh of purchases in a particular quarter. The incentive level for any quarter would be capped at 1.5 cents/ kWh. If funds are un-used in a particular quarter they would roll forward to the next.

As a final assurance that a robust market is created, no single marketer should receive more than 50% of the total funds on an annual basis calculated as a rolling average of the previous four quarters. This limit is crucial to deter new entrants from predatory pricing designed to keep out competitors.

Because this program would pay supports in arrears, the mechanism must be highly predictable and objective. Marketers must be certain enough of the allocation method to be able to price and sell their product to the consumer and get the support payments after the sale is complete. We believe that the mechanism proposed by the CEC (and as refined above) provides that level of certainty. Testimony by several parties at the January 15 hearing suggested that customer incentive funds be provided only when direct project support is unneeded. This approach would make the entire customer incentive program unworkable because there would be no way to offer the customer any type of price commitment.

If any changes were made to introduce more subjectivity or uncertainty into the allocation process, then the funds could no longer be issued in arrears, but would have to be allocated prior to the sale.

Thank you for the opportunity to comment.

Respectfully Submitted,

Eric L. Miller
Chief Executive Officer
Foresight Energy Company
6210 Elderberry Dr.
Oakland, CA 94611
510 531-8029
510 531-7176 Fax
millere@forenergy.com -email